

## ANNUAL REPORT 2015

### **Introduction**

BP Norge AS (BPN) is owned by BP Global Investments Ltd and Amoco Norway Oil Company. Both companies are part of the BP Group, one of the world's largest integrated oil and gas companies. BP has been established in Norway through Norsk Brændselolje A/S since 1920.

BPN carries out production and exploration for oil and gas on the Norwegian Continental Shelf. The company's exploration and production division was established in 1965, through the former company Amoco Norway's application for blocks in the first licensing round on the Norwegian Continental Shelf. The company's head office is located in Stavanger.

At the end of 2015 the company had 12 licenses of which 11 were operated. The company was awarded another operatorship in January 2016 from the 2015 TFO licensing round. The fields currently in production and operation by BPN are Valhall, Hod, Ula, Tambar and Skarv.

The Valhall field started production in 1982, and it is expected that production will continue for several decades. The field is developed using six centrally placed platforms and two flank platforms. The flank platforms are normally unmanned and located six kilometres north and south of the central facilities. Due to subsidence in the seabed and the need for more efficient operation of the field, the field was re-developed with a new integrated processing and hotel platform, a power-from-shore system, and an integrated operating environment linking onshore and offshore personnel. The new facilities were fully operational in 2013. The facilities are now operated solely using power from shore, the first field on the Norwegian Continental Shelf to do this.

The Hod field's production in 2015 has been through production wells tied back to the Valhall South Flank platform. The production over the unmanned Hod platform 13 kilometres south of Valhall closed down in 2013. The company is evaluating various options with the aim of re-developing the field and improving the recovery rate.

In connection with development of future plans for the Valhall Hod area, the company is evaluating various options for development of the fields. This work has so far not delivered financially attractive options. The work continues to consider various options which can deliver robust economics.

Production on the Ula field started in 1986, and is expected to be maintained towards 2028 or longer. After reaching a production peak in the early 1990s, and a subsequent decline in production in the mid-1990s, the Ula field continues to produce using enhanced oil recovery technology and WAG scheme (Water and Gas injection).

Furthermore production from the fields Tambar, Blane and Oselvar are received for processing on Ula. Hydrocarbons from the tie-in fields are processed on Ula before being exported, whereas the gas is injected in the Ula reservoir as part of the WAG scheme. The facilities on the Tambar field consist of one unmanned platform 16 kilometres south of Ula, which is remotely operated from Ula.

The Skarv field located in the Norwegian Sea is developed with a Floating Production, Storage and Offloading vessel (FPSO) and related subsea systems. The FPSO has one of the world's largest gas-processing plants on-board a vessel. The well production on the field opened in December 2012 and has 15 production and injection wells in operation. The hydrocarbons are transported to the market using shuttle tankers whereas the gas is exported through the Åsgard transport system to Kårstø for further processing and export of dry gas to Europe. In addition, there is pre-production through a well from the nearby Snadd field. This field is considered for development when capacity is available on the Skarv FPSO.

### **Profit and Loss**

Petroleum revenues in 2015 amounted to NOK 7 899 million. This was a significant reduction from last year's NOK 12 377 million. The decrease was mainly due to lower prices. Whereas the marker price in USD nearly halved from 2014 to 2015, the corresponding NOK price reduction was restricted to one third due to the offsetting impact from the NOK/USD exchange rate. The production volume was marginally lower than for the previous year.

Other operating revenues amounted to NOK 35 million.

The operating result was a loss of NOK 823 million compared to a loss of NOK 4 904 million kroner in the previous year. The operating costs of NOK 8 758 was reduced to nearly half of the cost in the previous year which contained an impairment loss of NOK 7 107 million. Adjusted for the impairment in 2014, the operating profit in 2015 was NOK 3 027 million lower than the year before. This was mainly due to the lower operating income partly offset by decommissioning cost being reduced by NOK 1 090 million.

Other operating cost was also reduced, mainly in the second half of the year, as a result of the actions taken to mitigate the impact of the sustained period with lower prices. In 2015 the company executed a program of activity reductions, simplifications, reduction in rates for goods and services and reduced administration costs, helped to offset the impact of the price reduction. A further reduction in operating cost is expected in 2016.

The depreciation cost of NOK 3 108 million, based on the unit of production method, was in line with the previous year.

Net financial items showed a loss of NOK 61 million, compared to a loss of NOK 145 million in the previous year. The movement is due lower interest expenses mainly as a result of lower debt, partly offset by a lower currency gain compared to the previous year.

The pre-tax result was a loss of NOK 884 million compared to a loss of 5 048 million in 2014. The improvement was due to lower operating cost partly offset by lower operating income. The result after tax was a loss of NOK 301 million compared to a loss of NOK 1 638 million in the previous year. The tax result for the year was NOK 583 million positive compared to a positive result of NOK 3 410 million in the year before. The variance is primarily due to changes in deferred tax.

### **Balance Sheet**

Total assets decreased from NOK 26 479 million in 2014 to NOK 23 537 million in 2015. This is due to a reduction in fixed assets from NOK 23 294 million to NOK 20 937 million, and a reduction in current assets from NOK 3 185 million to NOK 2 610 million.

The decrease in fixed assets reflects ordinary depreciation of NOK 3 108 million, partly offset by fixed assets additions of NOK 741 million.

The assets are financed by loans from the BP group and funds from the operations. On the liability side, the debt to group companies was reduced from NOK 10 000 million at the end of 2014 to NOK 7 500 million at the end of 2015. The total provisions increased by NOK 171 million during the year. This was due to an increase in provision for removal and abandonment cost of NOK 581 million and an increase in pension provision of NOK 205 million, partly offset by a reduction in deferred tax provision of NOK 615 million.

Other balance sheet items had only minor changes as a result of normal operating conditions. Equity at the end of the year amounted to NOK 3 704 million compared to NOK 4 005 million at the end of 2014.

### **Production**

In 2015 BPN had production from the following fields:

- Valhall (ownership interest 36.0 per cent)
- Hod (ownership interest 37.5 per cent)
- Ula (ownership interest 80.0 per cent)
- Tambar/Tambar East (ownership interest 55.0/46.2 per cent)
- Skarv (ownership interest 23.8 per cent)

BPN's share of 2015 production amounted to 62 100 barrels of oil equivalents per day compared with 63 400 in 2014. The reduction in production is coming from the Ula and Tambar fields with 2 400 and 1 000 barrels of oil equivalents per day respectively. This was partly offset by an increase in production on the Valhall and Skarv fields by 1 700 and 500 barrels of oil equivalents per day respectively.

BPN's share of Skarv production was 32 200 barrels of oil equivalents per day in 2015, whereas the share of the Valhall production was 19 200 barrels of oil equivalents per day. The increase in 2015 is on top of the considerable increases for these fields in 2014. This reflects the strong operating efficiency seen on the new facilities for Skarv and Valhall after coming into operation in 2012/2013. The

company has also experienced good results from focused well intervention work on Valhall and Ula, reducing production decline and extending the operating life of existing wells.

### **Investments**

BPN investments amounted to NOK 741 million in 2015 compared to NOK 1 905 million the year before. The reduction is reflecting that all activities related to the developments on Skarv and Valhall are now complete, combined with the overall reduction in activity level as a consequence of the lower prices.

The majority of the investments in 2015 is relating to completion of activities already ongoing at the start of the year, for example commissioning of the new flare tower and the new fire and gas alarm system on Ula, and completion of drilling activities on Valhall. Furthermore, planning activity continued for the potential development of the Snadd discovery.

### **Removal and abandonment**

In 2014 BPN commenced on a program for plugging and abandonment of wells on the Valhall field. The work is performed with a jack up rig and relates to wells associated with the old drilling platform on Valhall. In addition there were also abandonment and removal activities related to the old platforms on the Valhall field. Expenses for removal and abandonment in 2015 amounted to NOK 811 million compared to NOK 610 million in the previous year.

### **The external environment**

BPN's environmental management system is certified under NS-EN ISO 14001.

In 2015 BPN applied for minor adjustments to the overall permissions for all fields. BPN had one inspection from the Norwegian Environment Agency on the Valhall field in the year. This resulted in three findings and two recommendations.

BPN has continued the work on an energy management system based on the ISO 50001 standard. Baseline data and KPI for each field has been established.

### *Discharges to sea*

The annual average of discharge of oil to water on Ula was 25.3 mg/l. The limit set by the authorities is 30 mg/l weighted average per month. This limit was exceeded by on Ula during the first half of 2015. The main reasons for the high values are contribution from a subsea tie back field which makes separation difficult, and a period of high values following a start-up period. Testing with various chemicals combined with optimization of the water separation system has been carried out. As a result of this Ula has improved the emission level to 17 mg/l in the second half of the year. Further work is ongoing to identify challenges and establish a robust process for water separation.

On Valhall the limit set by the authorities for discharge of oil to water was met for all months. The annual average was 13.3 mg/l. On Skarv, the annual average of 10.3 mg/l was well within the authority limits.

Skarv had discharges of 50 litres of hydraulic fluid and 22 litres of lubrication oil respectively. Valhall had one minor discharge of three litres hydraulic fluid related to an ROV operation in 2015.

#### *Emissions to air*

Valhall is operated with power from shore. This has resulted in significant reductions in emissions to air. The core design on Valhall allows no active flaring. In 2015 the flaring system for low pressure flaring was also converted to a closed design, which further reduced the emissions. There was no reportable emission to air on the Ula or Valhall fields. The Skarv field had one reportable emission to air in 2015. All fields have permission from the Norwegian Environment Agency to release CO2 quota required emissions. CO2 emissions from the fields in 2015 are reported in line with these permissions and are subject to verification from a third party.

#### **Safety**

BPN had six reportable personnel injuries in 2015. This is four less than the previous year. Relative to working hours this gives a Total Recordable Injury Frequency (TRIF) of 0.23 per 200 000 hours.

BPN had six high potential incidents (HIPOs) in 2015 related to safety issues. This is a marked increase from the previous year when there were no reported incidents. The company has initiated activities to follow up and draw experience from these incidents.

There has been considerable preventive HSE activity to reduce risk in 2015, including

- 194 000 safety observation cards (STOP cards)
- 13 000 safety observation conversations (SOC conversations)
- 1 200 people have attended the HSE course “HSE Basic”
- Management has conducted approx. 100 management visits
- Seven internal inspections and numerous inspections by the authorities have been carried out
- 915 self-verifications

#### **Health**

Absence due to illness remained low in BPN in 2015 at 2.0 per cent. From a Norwegian perspective this is low. Good follow-up from our health service is a key factor in achieving this.

#### **Community engagement**

In the Stavanger area BPN is working together with Norwegian Petroleum Museum and the new national IOR centre at the University of Stavanger. The Valhall cultural heritage project was completed at the end of the year. This was manifested through an

event at the Norwegian Petroleum Museum where the leader for the National Library Aslak Sira Myhre opened the web site <http://www.kulturminne-valhall.no/>.

In the Helgeland area BPN is contributing actively through use of local industry. The company is experiencing a desire and ability to be competitive. An example of this is the initiative BPN took to establish a subsea warehouse in Sandnessjøen. Helgelandsbase was awarded the contract and the facility started operations in the fourth quarter of 2015. BPN has already started to move equipment to the new facility. The official opening took place in March 2016.

BPN provides economic support to employees' community engagement and to charitable organisations. Due to the strong and sustained drop in the oil price, difficult prioritizations have been made and the support to community engagement has been reduced in 2015.

To motivate young people and in particular girls, to choose an education within the science and technology field, is a commitment the company continues to honour. In Nordland County the company participates in work fairs, career events and school meetings. Our long term cooperation with the University of Oslo and the website [www.matematikk.org](http://www.matematikk.org) has been extended.

### **Personnel and organisation**

The headcount, which includes international BP employees with positions in Norway and contracted consultants, was reduced from 1 185 to 1 006, primarily due to reductions in overall activity level.

16 employees left the company during the year. 17 employees retired.

BPN recruited 44 new employees in 2015. Nine of the new employees are women. BPN had 15 employees posted abroad at the end of the year.

About half of the permanent employees have higher education. Substantial amounts are spent each year to maintain and further develop the competence in the organisation.

### **Diversity**

The company has an active personnel policy with regards to diversity and an inclusive working environment (IA). BPN is an IA company. The company has flexible working hour schemes which many employees make use of.

The proportion of female employees is 18%. The company wants to increase this percentage, and seeks to achieve this by recruiting "Challengers" and apprentices, but also through the regular recruitment activity. The proportion of women in the "Challengers" programme is 30%. Men and women are treated identically with regards to salary and benefits levels. 24 employees work part-time, of whom six are male.

The company follows BP group guidelines (“Code of Conduct”) which provides standards for equal treatment of employees regardless of sex, race, religion and ethnicity.

### **Financial transparency**

According to the accounting act §3-3d, the company will comply with the requirements for the Country-by-country reporting for 2015. The company will meet this requirement through reporting published by the BP Group. See BP website [bp.com](http://bp.com) for more information.

### **The future development of the company**

The completion of the two major development projects on Skarv and Valhall has given BPN a foundation for a long-term, stable business in Norway. The first years of operations for the new installations have demonstrated very good operating efficiency. This has confirmed BPN’s position as a significant operator on the Norwegian continental shelf.

Ula is established as a processing hub for fields in the area and options for further tie backs are considered on an ongoing basis. This contributes to an extended life time for the operation of the Ula field.

BPN has over the years drilled many exploration wells on the Norwegian continental shelf. One exploration well drilled was the Snadd Outer prospect in 2012 when a gas discovery was made. The company is currently doing studies to evaluate development concepts for this discovery together with the original Snadd North discovery.

BPN participated in the 23<sup>rd</sup> licensing round. In addition the company participated in the TFO round for 2015 and was awarded an operatorship relating to this early in 2016. The company’s objective is to evaluate potential resources in the awarded licenses without any undue delays.

### **Accounts**

BPN is not aware of any material and significant matters which would affect the assessments of the 2015 profits or the company’s general position as of 31 December 2015, other than those described above or in the accounts. The annual accounts have been prepared on the basis of the going concern assumption, in line with the accounting act § 3-3.

### **Allocation of the year’s profit**

Profit for BPN AS is allocated as follows:

	NOK
Loss	- 300 627 000
Dividends	0
Transferred from other equity	- 300 627 000

**On the board of BP Norge AS  
Stavanger 31 March 2016**

**Peter J. Mather**  
(Chairman)

**Jan J. Norheim**

**Christen I. Minos**

**Kåre Ekroll**

**Mark J. Thomas**

**Ørjan Holstad**

**Christine Eikeberg**

**Ingard Haugeberg**